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SUBJECT: NEW ECONOMY AND FINANCE MINISTER FOR PERU?

Classified By: Charge d'Affaires James Nealon, reasons 1.4(b) and (d)

SUMMARY

11. (C) It's been an open secret for many months that Economy and Finance Minister Luis Carranza is leaving. But recently, IMF veteran Luis Valdivieso's name has come up unofficially as his replacement. While insiders have confirmed the moves to us, there is still no official announcement. The government nonetheless has not denied that Valdivieso is being groomed to replace Carranza in the next months. An announcement is likely to be made by July 28, the country's Independence Day, but that has not stopped unsourced but informed media articles appearing, touting Valdivieso as his certain replacement. Economists are generally positive about the new candidate and describe him as being just as capable but having more "street smarts" than Carranza. END SUMMARY.

CONFIRMED?

12. (C) Economy and Finance Minister Luis Carranza has made no secret of wanting to leave government. This has been an open secret in Lima for many months. Yet the GOP has not publicly confirmed his departure and that he might be replaced by IMF economist Luis Valdivieso. Nevertheless, unsourced front page articles have touted Luis Valdivieso as his replacement, including the front page of the weekly news magazine Caretas. Traditionally, cabinet changes in Peru come during the July 28 Independence Day festivities.

CARRANZA PLEASED WITH HIS LEGACY

13. (C) Former Peruvian Energy Minister Jaime Quijandria (please protect), currently at the World Bank, confirmed privately that Valdivieso had been tapped to replace Carranza. Quijandria said he had spoken with Carranza this week and the Minister had made a positive evaluation of his two-year stint at the Ministry of Economy and Finance (MEF). He said Carranza was very satisfied with his legacy: strong and consistent economic growth, the PTPA, investment grade by some rating agencies, etc. Quijandria said Carranza decided to leave, as the job's pay was causing a hardship to his personal finances.

VALDIVIESO: ALREADY ASSEMBLING HIS TEAM

14. (C) Economists are generally positive about the likely nomination. Economist Roberto Abusada, director of the think tank IPE and a former Vice Minister of Finance, said Valdivieso was currently in Peru and quietly assembling his

team. He predicted that the GOP would make the announcement in the next weeks. He said Carranza had complained openly about his reduced salary, but was leaving largely because of policy disagreements with fellow ministers, whose demands for more budget allocations he refused to meet. Abusada said Valdivieso should be able to handle interpersonal relations with fellow ministers more adroitly since he has more "street smarts" ("criollo", in Peruvian slang) than Carranza.

15. (C) Guillermo Arbe, Head of Economic Research at Scotiabank Peru, said he thought the markets would take Valdivieso's designation well. Arbe notes that Valdivieso has devoted his expertise for a long time to Asia and Pacific issues at the IMF, and thus may not be conversant with Peruvian issues. BBVA Banco Continental's Economic Studies Manager, Hugo Perea, said Carranza commands high respect in the markets but expects that Valdivieso should win their favor too, as a solid technician and as a responsible economist. Nevertheless, Perea said he thought that as a technocrat, Valdivieso would be a minister without much political clout with a diminished ability to help push forward pending structural reforms (of the judiciary, executive branch, etc.). He also wondered whether Valdivieso was up to date on Peru's new realities.

BIOGRAPHICAL INFO

16. (U) The son of one of Peru's most famous soccer goalies, Luis Valdivieso has been at the IMF for almost 28 years and is currently in charge of the Asia portfolio. He participated in the structural reforms processes of Mexico (1982-1987), Russia (1992-1996, where he was the deputy head

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of the local IMF mission), Tajikistan (1996-1997), and Armenia (1997-1999). He has led teams to Cambodia and East Timor. He received his PhD from Boston University.

COMMENT

17. (C) Luis Carranza has made no secret of his desire to leave this year. He has complained privately that under the President's austerity budget, his take-home pay has been cut in half. No less importantly, in his zeal to maintain effective controls on spending, Carranza made many enemies, including within the cabinet and the Congress. Like Carranza, Valdivieso, an orthodox IMF official for the last almost three decades, is also an "orthodox" and "neo-liberal" economist. But he is seen as being more flexible and having better interpersonal skills. He has broad experience working on reform issues in Asia. Economists here hope he can adapt his approach to Peru's new realities.

NEALON